

REPORT OF THE AUDITOR-GENERAL TO THE KWAZULU-NATAL PROVINCIAL LEGISLATURE AND THE COUNCIL ON ULUNDI MUNICIPALITY

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the accompanying financial statements of the Ulundi Municipality, which comprise the statement of financial position as at 30 June 2011, statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended, a summary of significant accounting policies and other explanatory information, as set out on pages ... to

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Local Government Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2009 (Act No. 12 of 2009) (DoRA), and for such internal control as management determines necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-General's responsibility

3. As required by section 188 of the Constitution of the Republic of South Africa, 1996 (Act No. 108 of 1996), section 4 of the Public Audit Act of the Republic of South Africa, 2004 (Act No. 25 of 2004) (PAA) and section 126(3) of the MFMA, my responsibility is to express an opinion on the financial statements based on my audit.
4. I conducted my audit in accordance with International Standards on Auditing and *General Notice 1111 of 2010* issued in *Government Gazette 33872 of 15 December 2010*. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance that the financial statements are free from material misstatement.
5. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the municipality's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
6. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

7. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Ulundi Municipality as at 30 June 2011, and its financial performance and cash flows for the year then ended in accordance with SA Standard of GRAP and in the manner required by the MFMA and DoRA

Emphasis of matters

8. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Unauthorised expenditure

9. As disclosed in note 38.3 to the financial statements, unauthorised expenditure amounting to R70 570 million was incurred as a result of the municipality overspending its total budget.

Irregular expenditure

10. As disclosed in note 38.2 to the financial statements, irregular expenditure amounting to R943 311 was incurred as a result of the municipality trading with suppliers that are owned by employees of the state.

Fruitless and wasteful expenditure

11. As disclosed in note 38.1 to the financial statements, fruitless and wasteful expenditure amounting R164 835 was incurred as a result of the municipality not paying its overdue accounts on a timely basis.

Material losses

12. As disclosed in note 46 to the financial statements, material losses amounting to R13 829 million, was incurred as a result of electricity distribution.

Restatement of corresponding figures

13. As disclosed in note 18 to the financial statements, the corresponding figures for the 2009-10 financial year have been restated as a result of an error discovered during the 2010-11 financial statements in respect of finance leases being recognised as operating leases.

Significant uncertainties

14. The municipality is being sued by ratepayers for damages arising from incidents relating to electric shock injuries sustained. A contingent liability of R2 400 million as well as costs of R600 000 have been disclosed in note 42.1 to the financial statements.

Additional matter

15. I draw attention to the matter below. My opinion is not modified in respect of this matter.

Unaudited supplementary schedules

16. The supplementary information set out on pages XX to XX does not form part of the financial statements and is presented as additional information. I have not audited these schedules and accordingly do not express an opinion thereon.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

17. In accordance with the PAA and in terms of *General Notice No. 1111 of 2010*, issued in *Government Gazette 33872 of 15 December 2010*, I include below my findings on the annual performance report as set out on pages ... to ... and material non-compliance with laws and regulations applicable to the Ulundi Municipality.

Predetermined objectives**Usefulness of information**

18. The reported performance information was deficient in respect of the following criteria:
- Consistency: The reported objectives, indicators and targets are not consistent with the approved annual performance plan.

19. The following audit findings relate to the above criteria

The content of the annual performance report is incomplete

The municipality did not allocate budgeted expenditure for the key performance indicators in the annual performance report, therefore objectives cannot be individually measured against their expenditure.

Compliance with laws and regulations**Annual financial statements**

20. The annual financial statements were subject to material adjustments as a result of the audit. These adjustments constitute non-compliance with sections 122(1) and 125 of the MFMA

INTERNAL CONTROL

21. In accordance with the PAA and in terms of *General Notice 1111 of 2010*, issued in *Government Gazette 33872 of 15 December 2010*, I considered internal control relevant to my audit, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters reported below are limited to the significant deficiencies that resulted in the findings on the annual performance report and the findings on compliance with laws and regulations included in this report.

Leadership

12. The accounting officer has not exercised adequate oversight responsibility and taken adequate steps to prevent unauthorised expenditure, irregular expenditure, material losses and fruitless and wasteful expenditure.

Financial and performance management

13. High-level reviews were not appropriate to facilitate the preparation of quality financial statements, resulting in significant amendments being made to the financial statements submitted to audit.

Pietermaritzburg
30 November 2011



A U D I T O R - G E N E R A L
S O U T H A F R I C A

Auditing to build public confidence